

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019
AND INDEPENDENT AUDITOR'S REPORT

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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Independent auditor's report to the shareholders of Basic Chemical Industries Company

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Basic Chemical Industries Company (the "Company") and its subsidiaries (together the "Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the consolidated financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Key audit matter	• Adoption of IFRS 16 "Leases"
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Independent auditor's report to the shareholders of Basic Chemical Industries Company (continued)

Our audit approach (continued)

Overview (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
<p><i>Adoption of IFRS 16 "Leases"</i></p> <p>Effective 1 January 2019, the Group changed its accounting policies due to the mandatory application of IFRS 16 "Leases" which supersedes the requirements of IAS 17 "Leases".</p> <p>IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.</p> <p>Management compiled a lease register, for assessment of all the contracts, whether they met the definition of a lease, assessment of the lease terms related to the contracts which included termination or extension options. Management used the Group's incremental borrowing rate as discount rate to determine the lease liabilities and corresponding right-of-use assets recognised on the adoption date.</p> <p>The Group has adopted IFRS 16 from 1 January 2019 and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions of IFRS 16. As a policy choice, the Group has opted to recognise the right-of-use assets equal to the lease liabilities, adjusted by the amount of prepaid rent, due to which, no adjustment was made to opening retained earnings as at the adoption date.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> • Tested management's assessment of the impact of adoption of IFRS 16 in terms of recognition, classification and measurement of its right-of-use assets and lease liabilities at 1 January 2019, and understood the approach taken towards such implementation; • Tested completeness of the lease register by testing the reconciliation of the lease liabilities recognised at 1 January 2019 to the Group's operating lease commitments as at 31 December 2018, and by testing the management's assessment of contracts, on a sample basis, for inclusion or exclusion of contracts from the lease register at the adoption date; • Reviewed management's assessment of whether or not a contract meets the definition of a lease for a representative sample of contracts. We also assessed the appropriateness of the significant assumptions and judgements related to lease terms used to determine the right-of-use assets and lease liabilities for such contracts and the appropriateness of the discount rate used in determining the lease liabilities; • Verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contracts and other supporting information, and tested the arithmetical accuracy of the amounts underlying the right-of-use assets and lease liabilities; and



Independent auditor's report to the shareholders of Basic Chemical Industries Company (continued)

Our audit approach (continued)

Overview (continued)

Key audit matter	How our audit addressed the Key audit matter
<p>We considered this as a key audit matter as the assessment of the contracts within the scope of IFRS 16 may not be identified or appropriately included in the calculation of the transitional impact and determination of amounts underlying the lease liabilities and corresponding right-of-use assets involve significant management judgements and estimates relating to the lease term and discount rate.</p> <p>Refer to Note 2 for the impact of the adoption of IFRS 16, Note 2.15 for the accounting policy and Note 12 for the related disclosures in the accompanying consolidated financial statements.</p>	<ul style="list-style-type: none"> Assessed the adequacy and appropriateness of the disclosures in the accompanying consolidated financial statements in relation to the adoption of IFRS 16.

Other information

The Board of Directors is responsible for the other information. The other information comprises information included in the Group's 2019 Board of Directors' report, but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this independent auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Group's 2019 Board of Directors' report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Independent auditor's report to the shareholders of Basic Chemical Industries Company (continued)

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, i.e. the Board of Directors, are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



Independent auditor's report to the shareholders of Basic Chemical Industries Company (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers

Ali A. Alotaibi
License Number 379

25 March 2020



BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Consolidated statement of profit or loss and other comprehensive income

(All amounts in Saudi Riyals unless otherwise stated)

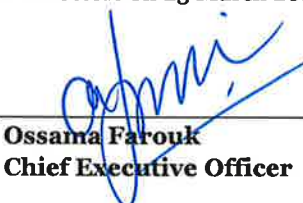
		Year ended 31 December	
	Note	2019	2018
Revenue	6	534,561,496	605,189,925
Cost of sales	7	(400,022,894)	(450,404,912)
Gross profit		134,538,602	154,785,013
Selling and distribution expenses	8	(46,603,009)	(49,008,135)
General and administrative expenses	9	(23,452,296)	(29,585,319)
Other operating income - net		4,714,695	5,962,396
Operating profit		69,197,992	82,153,955
Finance income		-	725,694
Finance costs		(159,441)	-
Profit before zakat and income tax		69,038,551	82,879,649
Zakat expense	21	(5,241,490)	(6,857,054)
Income tax expense	21	(4,411,389)	(5,503,674)
Profit for the year		59,385,672	70,518,921
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss</i>			
Remeasurements of employee benefit obligations	19	1,585,816	(3,848,798)
Total comprehensive income for the year		60,971,488	66,670,123
Profit for the year is attributable to:			
Shareholders of Basic Chemical Industries Company		41,221,284	49,667,629
Non-controlling interests		18,164,388	20,851,292
		59,385,672	70,518,921
Total comprehensive income for the year is attributable to:			
Shareholders of Basic Chemical Industries Company		42,953,494	46,049,188
Non-controlling interests		18,017,994	20,620,935
		60,971,488	66,670,123

Earnings per share

Basic and diluted	25	1.50	1.81
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The consolidated financial statements including notes and other explanatory information were authorised for issue by the Board of Directors on 25 March 2020 and were signed on their behalf by:


Abdullatif Abdulhadi
Designated Member


Ossama Farouk
Chief Executive Officer


Ashraf Bahnacy
Finance Manager


The accompanying notes are an integral part of these consolidated financial statements.

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of financial position
(All amounts in Saudi Riyals unless otherwise stated)

	Note	As at 31 December 2019	As at 31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	11	422,194,976	332,486,744
Right-of-use assets	12	3,516,320	-
Total non-current assets		425,711,296	332,486,744
Current assets			
Inventories	13	85,950,400	92,880,574
Trade and other receivables	14	164,940,297	160,325,796
Cash and cash equivalents	15	79,749,958	106,895,306
Total current assets		330,640,655	360,101,676
Total assets		756,351,951	692,588,420
Equity and liabilities			
Equity			
Share capital	17	275,000,000	275,000,000
Statutory reserve	18	62,159,669	58,037,541
Retained earnings		213,032,612	174,201,246
Equity attributable to the shareholders of Basic Chemical Industries Company		550,192,281	507,238,787
Non-controlling interests	10	70,618,544	78,500,550
Total equity		620,810,825	585,739,337
Liabilities			
Non-current liabilities			
Borrowings	16	15,000,000	-
Lease liabilities	12	2,294,022	-
Employee benefit obligations	19	28,724,961	29,376,697
Total non-current liabilities		46,018,983	29,376,697
Current liabilities			
Trade and other payables	20	82,198,212	71,308,696
Current portion of lease liabilities	12	859,710	-
Zakat and income tax payable	21	6,464,221	6,163,690
Total current liabilities		89,522,143	77,472,386
Total liabilities		135,541,126	106,849,083
Total equity and liabilities		756,351,951	692,588,420

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Abdullatif Abdulhadi
Designated Member


Ossama Farouk
Chief Executive Officer

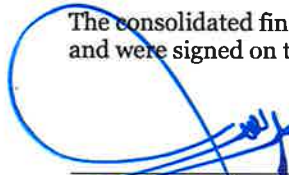

Ashraf Bahmany
Finance Manager

The accompanying notes are an integral part of these consolidated financial statements.

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of changes in equity
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Attributable to the shareholders of Basic Chemical Industries Company				Non-	Total
		Share capital	Statutory reserve	Retained earnings	Total	controlling interests	
At 1 January 2018		275,000,000	53,070,778	160,618,821	488,689,599	78,779,615	567,469,214
Profit for the year		-	-	49,667,629	49,667,629	20,851,292	70,518,921
Other comprehensive loss for the year		-	-	(3,618,441)	(3,618,441)	(230,357)	(3,848,798)
Total comprehensive income for the year		-	-	46,049,188	46,049,188	20,620,935	66,670,123
Transfer to statutory reserve	18	-	4,966,763	(4,966,763)	-	-	-
Dividends	26	-	-	(27,500,000)	(27,500,000)	(20,900,000)	(48,400,000)
At 31 December 2018		275,000,000	58,037,541	174,201,246	507,238,787	78,500,550	585,739,337
At 1 January 2019		275,000,000	58,037,541	174,201,246	507,238,787	78,500,550	585,739,337
Profit for the year		-	-	41,221,284	41,221,284	18,164,388	59,385,672
Other comprehensive income (loss) for the year		-	-	1,732,210	1,732,210	(146,394)	1,585,816
Total comprehensive income for the year		-	-	42,953,494	42,953,494	18,017,994	60,971,488
Transfer to statutory reserve	18	-	4,122,128	(4,122,128)	-	-	-
Dividends	26	-	-	-	-	(25,900,000)	(25,900,000)
At 31 December 2019		275,000,000	62,159,669	213,032,612	550,192,281	70,618,544	620,810,825

The consolidated financial statements including notes and other explanatory information were authorised for issue by the Board of Directors 25 March 2020 and were signed on their behalf by:


Abdullatif Abdulhadi
Designated Member


Ossama Farouk
Chief Executive Officer


Ashraf Bahnacy
Finance Manager

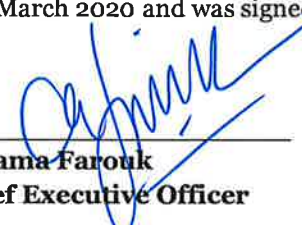
The accompanying notes are an integral part of these consolidated financial statements.

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Consolidated statement of cash flows
(All amounts in Saudi Riyals unless otherwise stated)

	Note	Year ended 31 December	
		2019	2018
Cash flows from operating activities			
Profit before zakat and income tax		69,038,551	82,879,649
<u>Adjustments for:</u>			
Depreciation	11,12	28,346,330	27,110,491
Write-off of property and equipment		-	63,077
Gain on disposal of property and equipment		(253,147)	(141,515)
Finance income		-	(725,694)
Finance costs	12	159,441	-
Provision for employee benefit obligations	19	3,724,895	2,898,632
<u>Changes in operating assets and liabilities:</u>			
Decrease in inventories		6,930,174	9,078,705
(Increase) decrease in trade and other receivables		(3,332,890)	1,285,297
Increase (decrease) in trade and other payables		10,889,516	(5,209,116)
Cash generated from operations		115,502,870	117,239,526
Finance income received on short-term deposits		-	725,694
Finance costs paid		(159,441)	-
Employee benefit obligations paid	19	(2,790,815)	(1,378,960)
Zakat and income tax paid	21	(11,107,292)	(19,303,740)
Net cash inflow from operating activities		101,445,322	97,282,520
Cash flows from investing activities			
Short-term deposits		-	50,000,000
Payments for purchases of property, plant and equipment	11	(117,279,309)	(165,125,424)
Proceeds from disposal of property and equipment		344,413	259,457
Net cash outflow from investing activities		(116,934,896)	(114,865,967)
Cash flows from financing activities			
Proceeds from borrowings	16	15,000,000	-
Principal elements of lease payments		(755,774)	-
Dividends paid to the Company's shareholders	26	-	(27,500,000)
Dividends paid to non-controlling interests in subsidiaries		(25,900,000)	(20,900,000)
Net cash outflow from financing activities		(11,655,774)	(48,400,000)
Net decrease in cash and cash equivalents		(27,145,348)	(65,983,447)
Cash and cash equivalents at beginning of the year		106,895,306	172,878,753
Cash and cash equivalents at end of the year	15	79,749,958	106,895,306
Non-cash operating, investing and financing activities:			
Right-of-use assets recorded against lease liabilities	12	3,909,506	-
Prepaid lease rentals transferred to right-of-use assets		473,333	-

The consolidated financial statements including notes and other explanatory information were authorised for issue by the Board of Directors on 25 March 2020 and was signed on their behalf by:


Abdullatif Abdulhadi
Designated Member


Ossama Farouk
Chief Executive Officer


Ashraf Bahnacy
Finance Manager

The accompanying notes are an integral part of these consolidated financial statements.

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

1 General information

Basic Chemical Industries Company (the "Company" or "BCI") and its subsidiaries (collectively the "Group") consist of the Company and its subsidiaries as listed in Note 10. The Group is principally engaged in the manufacturing of various chemicals as well as to purchase, formulate, process, export, import, market, distribute and act as an agent for the sale of chemicals.

The Company is a joint stock company registered in the Kingdom of Saudi Arabia under Commercial Registration ("CR") number 2050002795 issued in Dammam on 28 Dhul Al Hijjah 1392H (2 February 1973). The registered address of the Company is P.O. Box 1053, Dammam 31431, Kingdom of Saudi Arabia.

The accompanying consolidated financial statements include the accounts of the Company, its branches and its various Saudi Arabian subsidiaries, operating under individual commercial registration ("CR"). See Note 10 for details. Also see Note 11 for the Group's investment in construction of a new plant in Jubail.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of consolidated financial statements of the Group are set out below.

2.1 Basis of preparation

a) Statement of compliance

These consolidated financial statements of the Group have been prepared in compliance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by Saudi Organization for Certified Public Accountants ("SOCPA").

(b) Historical cost convention

The consolidated financial statements are prepared under the historical cost convention, except for the employee benefit obligations as explained in the relevant accounting policy.

(c) New and amended standards adopted by the Group

The Group has adopted a new accounting standard for all reporting periods commencing on or after 1 January 2019, the impact of the adoption of this standard is explained below.

IFRS 16 - 'Leases' ("IFRS 16")

The Group has adopted IFRS 16 from 1 January 2019 but did not restate comparative information or adjust the opening equity, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the consolidated statement of financial position on 1 January 2019. The new accounting policies are disclosed in Note 2.15.

On adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 January 2019. The equal and opposite side of the lease liability calculated, is the right-of-use asset. Therefore, there is no adjustment against opening retained earnings as at the transition date i.e. 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.44%.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

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Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made under the previously applicable accounting standards.

(i) Measurement of lease liabilities

Reconciliation of operating lease commitments as at 31 December 2018 and lease liability recognized as at 1 January 2019 is as follows:

	Saudi Riyals
Operating lease commitments disclosed as at 31 December 2018	-
Add: adjustment as a result of assessment of extension options of lease contracts under IFRS 16	4,343,396
Impact of discounting using the Group's incremental borrowing rate at the date of initial application	(433,890)
Lease liabilities recognized as at 1 January 2019	<u>3,909,506</u>
Current lease liabilities	830,615
Non-current lease liabilities	<u>3,078,891</u>
	<u>3,909,506</u>

(ii) Right-of-use assets

The Group's right-of-use assets relate to a parcel of land, warehouses, office spaces and staff accommodation. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

	Saudi Riyals
Warehouse	2,362,143
Office space	1,749,636
Accommodation	169,330
Land	<u>101,730</u>
	<u>4,382,839</u>

BASIC CHEMICAL INDUSTRIES COMPANY

(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

(c) Adjustments recognised in the statement of financial position at 1 January 2019

The change in accounting policy affected the following items in the statement of financial position at 1 January 2019:

- Right-of-use assets - increased by Saudi Riyals 4.4 million
- Trade and other receivables - decreased by Saudi Riyals 0.5 million (adjustment for prepaid rent)
- Lease liabilities - increased by Saudi Riyals 3.9 million

(d) Standards issued but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.2 Foreign currencies

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The consolidated financial statements are presented in "Saudi Riyals", which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into Saudi Riyals using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

2.3 Basis of consolidation and equity accounting

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)

Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained; and
- Recognises any surplus or deficit in profit or loss.

Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

(b) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Investments in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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2.4 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, except capital work-in-progress which are carried at cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite life.

Depreciation is calculated on property, plant and equipment so as to allocate its cost, less estimated residual value, on a straight line basis over the estimated useful lives of the assets. Depreciation is charged to profit or loss.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each annual reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Major spare parts and stand-by equipment qualify for recognition as property, plant and equipment when the Company expects to use them during more than one year. Transfers are made to relevant operating assets category as and when such items are available for use.

Assets in the course of construction or development are capitalised in the capital work-in-progress account. The asset under construction or development is transferred to the appropriate category in property, plant and equipment, once the asset is in a location and / or condition necessary for it to be capable of operating in the manner intended by management. The cost of an item of capital work-in-progress comprises its purchase price, construction / development costs and any other directly attributable costs to the construction or acquisition of an item of capital work-in-progress intended by management. Capital work-in-progress is not depreciated.

2.5 Financial instruments

2.5.1 Financial assets

(i) Classification

The Group's financial assets are classified and measured at amortised cost as such assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest.

(ii) Recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement of Group's financial assets are at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented under "General and administrative expenses" in the profit or loss.

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(iii) Impairment

The Group assesses, on a forward looking basis, the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Also see Note 23.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9 'Financial Instruments' ('IFRS 9'), which requires lifetime expected credit losses to be recognised from initial recognition of the receivables.

2.5.2 Financial liabilities

All financial liabilities are recognised at the time when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recognized initially at fair value less any directly attributable transaction cost. Subsequent to initial recognition, these are measured at amortized cost using the effective interest rate method.

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognised in profit or loss.

2.5.3 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and net amounts reported in the consolidated financial statements, when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the assets and liabilities simultaneously.

2.6 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

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2.7 Inventories

Raw materials and consumable spares, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provision for slow-moving inventories is made considering various factors including age of the inventory items, historic usage and expected utilization in future.

2.8 Trade receivables

Trade receivables are amounts due from customers for products sold and services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest rate method. Details about the Group's impairment policies and the calculation of the loss allowance are provided in Notes 2.5 and 14. Subsequent recoveries of amounts previously written-off are credited in profit or loss against "General and administrative expenses".

2.9 Cash and cash equivalents

Cash is cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investments normally only qualify as cash equivalent if they have a maturity of three months or less from the date of acquisition.

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.10 Share capital

Ordinary shares are classified as equity. Transaction costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.11 Trade payables

Trade payables are obligations to pay for goods and services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

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2.12 Employee benefit obligations

The Company operates a single post-employment benefit scheme of defined benefit plan driven by the Labour Laws and Workman Laws of the Kingdom of Saudi Arabia which is based on most recent salary and number of service years.

The post-employment benefits plan is not funded. Accordingly, valuations of the obligations under the plan are carried out by an independent actuary based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Current and past service costs related to post-employment benefits are recognized immediately in profit or loss while unwinding of the liability at discount rates used are recorded in profit or loss. Any changes in net liability due to actuarial valuations and changes in assumptions are taken as re-measurement in the other comprehensive income.

Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income and transferred to retained earnings in the consolidated statement of changes in equity in the period in which they occur.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs. End of service payments are based on employees' final salaries and allowances and their cumulative years of service, as stated in the Labour Laws of Kingdom of Saudi Arabia.

2.13 Revenue from contracts with customers

Revenue from sale of goods is measured at the fair value of the consideration received or receivable in the ordinary course of the Company's activities. The Group recognizes revenue from the sale of goods when control of the goods is transferred to the customer, being when the products are delivered to the customer, the customer has full discretion over the use or sale of such goods, and there is no unfulfilled obligation that could affect the customer's acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location as per the terms of the contract, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. The Group's contracts with customers for the sale of goods include one performance obligation i.e. to deliver goods to the customer. Revenue is recognized at a point in time upon satisfaction of such performance obligation.

2.14 Finance income

Finance income is measured using the effective interest rate, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset or a shorter period, where appropriate, to the net carrying amount of the financial asset.

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2.15 Leases - accounting policy applied from 1 January 2019

At inception of a contract, the Group assesses whether a contract is or contains a lease. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.15.1 Right-of-use assets

The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement dates, plus any initial direct costs incurred. They are subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Right-of-use assets are depreciated over the shorter period of the lease term or the economic useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 "Impairment of Assets" to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss.

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2.15.2 Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the interest rate implicit in the lease. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease liabilities include the net present value of the following lease payments:

- fixed lease payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest rate method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

Lease term

Rental contracts are typically made for fixed periods but may have extension options. Extension options are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by mutual agreement of the Group and the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value asset. The Group recognises the lease payments associated with these leases as an operating expense on a straight-line basis over the lease term.

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Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

2.17 Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's consolidated financial statements in the period in which the dividends are approved by the Company's shareholders.

2.18 Zakat and income tax

The Group is subject to zakat and income tax in accordance with the regulations of the General Authority of Zakat and Tax (the "GAZT"). Zakat, for the Company and its subsidiaries, is calculated based on higher of approximate zakat base and adjusted profit and charged to profit or loss. Income tax on the share of the adjusted profit related to the foreign shareholders in the subsidiaries, is charged to profit or loss. Additional amounts, if any, are accounted for when determined to be required for payment.

Income tax based on the applicable income tax rate is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.19 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group's Chief Executive Officer who is the Chief Operating Decision Maker, include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Sales between segments are carried out at arm's length and are eliminated on consolidation. The revenue from external parties is measured in the same way as in the statement of profit or loss. Segment assets and liabilities are measured in the same way as in the consolidated financial statements. These assets and liabilities are allocated based on the operations of the segment and the physical location of the asset.

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2.20 Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit attributable to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period.

3 Fair value of assets and liabilities

As at 31 December 2019 and 2018, the fair values of the Group's financial instruments are estimated to approximate their carrying values since the financial instruments are short term in nature, carry interest rates which are based on prevailing market interest rates and are expected to be realized at their current carrying values within twelve months from the date of consolidated statement of financial position. The fair value of the non-current financial liabilities are estimated to approximate their carrying values as these carry interest rates which are based on prevailing market interest rates.

4 Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below:

Expected credit loss ("ECL") model measurement

Measurement of ECL is an estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 14. The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"), as well as models of macro-economic scenarios. The Company regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

Right-of-use assets and lease liability

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

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5 Segment information

The Group's operations are principally organized into the following two (2) business segments based on its products:

- **Chemicals:** this part of the business manufactures and sells industrial chemicals such as hydrochloric acid, caustic soda, chlorine gas, sodium hypochlorite, polyurethane chemicals etc. used in multiple industries.
- **Adhesives and other materials:** this part of the business manufactures and sells ferric chloride, hot and colt melt adhesives, sulfuric acid etc. used in multiple industries.

Selected financial information as of 31 December 2019 and 2018 and for the years then ended, summarized by the above operating segments, is as follow.

2019	Chemicals	Adhesives and other materials	Total
Revenue	284,101,113	250,460,383	534,561,496
Cost of sales	(220,358,605)	(179,664,289)	(400,022,894)
Gross profit	63,742,508	70,796,094	134,538,602
Selling and distribution expenses	(25,670,248)	(20,932,761)	(46,603,009)
General and administrative expenses	(20,844,712)	(2,607,584)	(23,452,296)
Other operating income - net	5,711,586	(996,891)	4,714,695
Operating profit	22,939,134	46,258,858	69,197,992
Finance costs	(149,950)	(9,491)	(159,441)
Profit before zakat and income tax	22,789,184	46,249,367	69,038,551
Zakat expense	(3,447,302)	(1,794,188)	(5,241,490)
Income tax expense	(210,074)	(4,201,315)	(4,411,389)
Profit for the year	19,131,808	40,253,864	59,385,672
Property, plant and equipment	389,143,642	33,051,334	422,194,976
Additions to property, plant and equipment	115,146,970	2,132,339	117,279,309
Depreciation expense	23,005,942	5,340,388	28,346,330
Total assets	576,504,003	179,847,948	756,351,951
Total liabilities	92,982,235	42,558,891	135,541,126

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2018	Chemicals	Adhesives and other materials	Total
Revenue	364,379,149	240,810,776	605,189,925
Cost of sales	(267,339,268)	(183,065,644)	(450,404,912)
Gross profit	97,039,881	57,745,132	154,785,013
Selling and distribution expenses	(29,775,717)	(19,232,418)	(49,008,135)
General and administrative expenses	(28,218,837)	(1,366,482)	(29,585,319)
Other operating income - net	5,894,184	68,212	5,962,396
Operating profit	44,939,511	37,214,444	82,153,955
Finance income	725,694	-	725,694
Profit before zakat and income tax	45,665,205	37,214,444	82,879,649
Zakat expense	(5,431,959)	(1,425,095)	(6,857,054)
Income tax expense	(2,659,168)	(2,844,506)	(5,503,674)
Profit for the year	37,574,078	32,944,843	70,518,921
Property, plant and equipment	296,279,118	36,207,626	332,486,744
Additions to property, plant and equipment	163,312,793	1,812,631	165,125,424
Depreciation expense	21,785,563	5,324,928	27,110,491
Total assets	536,456,176	156,132,244	692,588,420
Total liabilities	74,228,843	32,620,240	106,849,083

Chemicals: Revenues of approximately Saudi Riyals 86.1 million for the year ended 31 December 2019 are derived from 2 external customers (2018: Saudi Riyals 93.2 million from 3 external customers).

Adhesives and other materials: Revenues of approximately Saudi Riyals 77.7 million for the year ended 31 December 2019 are derived from 3 external customers (2018: Saudi Riyals 83.1 million from 3 external customers).

6 Revenue

The Group principally derives revenue from the delivery of goods at a point in time as follows:

	2019	2018
Local sales	413,000,946	465,751,160
Export sales	121,560,550	139,438,765
	534,561,496	605,189,925

7 Cost of sales

	2019	2018
Cost of materials	314,940,956	365,112,725
Salaries and benefits	27,720,028	28,382,931
Depreciation	23,549,281	22,576,061
Power	18,899,274	18,426,084
Repair and maintenance	8,634,947	8,817,655
Other	6,278,408	7,089,456
	400,022,894	450,404,912

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		2019	2018
	Note		
Salaries and benefits		18,109,230	17,791,259
Transportation		9,897,344	11,580,691
Royalty	22	7,945,790	6,842,744
Depreciation	11	3,232,550	2,558,426
Repair and maintenance		1,857,651	1,739,176
Travelling		1,576,507	1,393,081
Commission		1,500,000	1,608,195
Insurance		546,447	626,701
Utilities		375,139	362,726
Other		1,562,351	4,505,136
		46,603,009	49,008,135

9 General and administrative expenses

		2019	2018
	Note		
Salaries and benefits		15,543,342	15,271,114
Board of directors' fees		1,866,964	1,586,101
Depreciation	11	1,564,501	1,752,355
Professional fees		1,491,937	1,271,550
Visa and related charges		1,267,735	1,680,216
Travelling		1,053,013	752,426
Repair and maintenance		508,303	499,950
Utilities		449,387	496,981
Insurance		372,070	451,998
Allowance for ECL	14	(3,007,067)	3,722,757
Other		2,342,111	2,099,871
		23,452,296	29,585,319

10 Interests in other entities**(a) Investment in subsidiaries**

	Country of incorporation	Effective ownership percentage		Principal activities
		2019	2018	
Basic Chemicals National Company Limited ("BCNC")	Saudi Arabia	100%	100%	Manufacture and sale of chemicals
Chemical Marketing and Distribution Company Limited ("CMDCL")	Saudi Arabia	100%	100%	Wholesale and retail of chemicals
Saudi Water Treatment Company ("SWTC")	Saudi Arabia	100%	100%	Manufacture and sale of chemicals
Huntsman APC ("HAPC")	Saudi Arabia	49%	49%	Manufacture and sale of chemicals
National Adhesives Company Limited ("NAL")	Saudi Arabia	47%	47%	Manufacture and sale of chemicals

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

The Company has consolidated the accounts of HAPC and NAL in the accompanying consolidated financial statements as a parent company by virtue of respective shareholders' agreements. Pursuant to such agreements:

- BCI appoints its representative as Chief Executive Officer for both HAPC and NAL for managing day to day operations; and
- BCI's representative(s) on the Board of Directors have the power to direct all key relevant business activities as a result of the voting arrangements under the terms of these agreements.

Accordingly, the Company has the right to exercise control through its ability to affect the amount of returns generated from these companies, its power over these companies and its exposure and right to the variable returns.

Summarised financial information for subsidiaries that have non-controlling interests i.e. NAL and HAPC is as follows:

(i) Summarised financial position

	HAPC		NAL	
	2019	2018	2019	2018
Current assets	60,594,406	83,085,624	130,500,773	106,970,513
Current liabilities	(11,354,224)	(7,093,367)	(33,799,908)	(24,753,106)
Net current assets	49,240,182	75,992,257	96,700,865	82,217,407
Non-current assets	3,973,577	3,423,512	10,578,258	10,978,634
Non-current liabilities	(1,809,110)	(574,807)	(4,209,405)	(3,451,857)
Net non-current assets	2,164,467	2,848,705	6,368,853	7,526,777
Net assets	51,404,649	78,840,962	103,069,718	89,744,184
Accumulated NCI	23,925,121	37,624,310	46,693,424	40,876,240

(ii) Summarised statement of profit or loss and other comprehensive income

	HAPC		NAL	
	2019	2018	2019	2018
Revenue	75,023,715	117,757,801	228,228,356	219,472,895
Profit for the year	2,965,910	15,711,592	33,214,704	27,259,957
Other comprehensive (loss) income	(402,223)	(37,648)	110,830	(398,410)
Total comprehensive income	2,563,687	15,673,944	33,325,534	26,861,547
Profit allocated to NCI	1,805,944	7,136,678	16,358,444	13,714,614

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

(iii) Summarised statement of cash flows

	HAPC		NAL	
	2019	2018	2019	2018
Cash flows from operating activities	17,380,483	20,874,628	42,027,061	31,806,207
Cash flows from investing activities	(32,105)	(647,808)	(1,154,392)	(1,638,056)
Cash flows from financing activities	(30,294,075)	(15,000,000)	(20,127,328)	(25,000,000)
Net (decrease) increase in cash and cash equivalents	(12,945,697)	5,226,820	20,745,341	5,168,151

(b) Investment in an associate

During 2013, CMDC acquired 50% equity interest in Mars Chemical Marketing and Distribution Company Limited ("Mars-CMDC"), a limited liability company incorporated in Qatar under CR number 56892 issued on 12 Ramadan 1433 H (31 July 2012). Mars-CMDC is engaged in marketing and distribution of various chemicals, solvents, additives, catalysts, plastics, polymers and resins.

During 2017, the Group recorded an impairment write-down on such investment equal to its carrying value amounting to Saudi Riyals 0.4 million. The Group has no obligation to provide any financial support to the associate beyond its investment amount. Accordingly, management has not recognized any share of loss during 2019 and 2018.

The unrecognized share of loss from investment in Mars-CMDC, as of 31 December 2019 was Saudi Riyals 0.3 million (2018: Saudi Riyals 0.2 million).

BASIC CHEMICAL INDUSTRIES COMPANY
(A Saudi Joint Stock Company)
Notes to the consolidated financial statements for the year ended 31 December 2019

(All amounts in Saudi Riyals unless otherwise stated)

11 Property, plant and equipment

	1 January	Additions	Disposals	Transfers	31 December
2019					
Cost					
Land	2,824,561	-	-	-	2,824,561
Buildings and leasehold improvements	101,736,605	2,381,490	-	-	104,118,095
Plant and machinery	419,393,399	3,514,899	-	649,342	423,557,640
Furniture, fixtures and office equipment	26,624,049	539,738	-	-	27,163,787
Vehicles	32,694,938	1,214,761	(1,917,852)	-	31,991,847
Capital work-in-progress	209,888,044	109,628,421	-	(649,342)	318,867,123
	<u>793,161,596</u>	<u>117,279,309</u>	<u>(1,917,852)</u>	<u>-</u>	<u>908,523,053</u>

Accumulated
depreciation and impairment

Buildings and leasehold improvements	(68,815,597)	(3,338,606)	-	-	(72,154,203)
Plant and machinery	(338,627,765)	(22,014,601)	-	-	(360,642,366)
Furniture, fixtures and office equipment	(25,086,943)	(614,370)	-	-	(25,701,313)
Vehicles	(28,144,547)	(1,512,234)	1,826,586	-	(27,830,195)
	<u>(460,674,852)</u>	<u>(27,479,811)</u>	<u>1,826,586</u>	<u>-</u>	<u>(486,328,077)</u>
Net book value	<u>332,486,744</u>				<u>422,194,976</u>

	1 January	Additions	Disposals	Transfers	31 December
2018					
Cost					
Land	2,824,561	-	-	-	2,824,561
Buildings and leasehold improvements	99,551,184	655,236	(68,668)	1,598,853	101,736,605
Plant and machinery	414,867,908	4,225,889	-	299,602	419,393,399
Furniture, fixtures and office equipment	26,010,236	613,813	-	-	26,624,049
Vehicles	31,520,298	2,547,882	(1,373,242)	-	32,694,938
Capital work-in-progress	54,703,895	157,082,604	-	(1,898,455)	209,888,044
	<u>629,478,082</u>	<u>165,125,424</u>	<u>(1,441,910)</u>	<u>-</u>	<u>793,161,596</u>

Accumulated
depreciation and impairment

Buildings and leasehold improvements	(65,616,911)	(3,204,277)	5,591	-	(68,815,597)
Plant and machinery	(317,146,778)	(21,480,987)	-	-	(338,627,765)
Furniture, fixtures and office equipment	(24,300,961)	(785,982)	-	-	(25,086,943)
Vehicles	(27,760,602)	(1,639,245)	1,255,300	-	(28,144,547)
	<u>(434,825,252)</u>	<u>(27,110,491)</u>	<u>1,260,891</u>	<u>-</u>	<u>(460,674,852)</u>
Net book value	<u>194,652,830</u>				<u>332,486,744</u>

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the assets:

	Number of years
• Buildings and leasehold improvements	25
• Plant and machinery	15 - 20
• Furniture, fixtures and office equipment	3 - 5
• Vehicles	4 - 7

The Group's capital-work-in-progress as at 31 December 2019 principally comprises the following:

- Costs incurred amounting to Saudi Riyals 281.0 million on a new plant for chlorine-based derivatives in Jubail. Such balance represents capital expenditure under different arrangements entered for procurement of plant and machinery, engineering services and other related items. The Royal Commission for Jubail and Yanbu has allocated land for such project in Jubail. The project is expected to be completed by 2021 with a total estimated cost of Saudi Riyals 685.0 million. The Group has also signed a letter of intent to engage with a local contracting company to carry out construction and civil works for such plant for an estimated cost of Saudi Riyals 290.0 million. Also see Note 16.
- Costs incurred amounting to Saudi Riyals 10.4 million in respect of construction of an administrative block at Dammam head office. The building is expected to be completed in 2021 with a total estimated cost of Saudi Riyals 19.4 million.

Buildings and plant facilities of BCNC are constructed on plots of land leased under a renewable operating lease agreement at annual rent from the Royal Commission for Jubail and Yanbu for 25 Hijri years beginning from 17 Shaban 1422 H (3 November 2001).

12 Leases

This note provides information for leases where the group is a lessee.

i) Amounts recognised in the statement of financial position

	1 January 2019	Depreciation	31 December 2019
Right-of-use assets			
Warehouse	2,362,143	(464,681)	1,897,462
Office space	1,749,636	(350,077)	1,399,559
Accommodation	169,330	(31,749)	137,581
Land	101,730	(20,012)	81,718
	<u>4,382,839</u>	<u>(866,519)</u>	<u>3,516,320</u>

Lease liabilities

As at 1 January 2019	3,909,506
Repayments	(915,215)
Interest expense	159,441
As at 31 December 2019	<u>3,153,732</u>

Lease liabilities are presented as follows:

Lease liabilities	2,294,022
Current maturity shown under current liabilities	<u>859,710</u>
	<u>3,153,732</u>

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019****(All amounts in Saudi Riyals unless otherwise stated)***ii) Amounts recognised in the statement of profit and loss*

The statement of profit or loss shows the following amounts relating to leases:

Expenses relating to short-term leases (included in selling and marketing)	191,157	-
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The total cash outflow for leases in 2019 was Saudi Riyals 1.0 million.

iii) Additional information about the Group's leasing activities

Rental contracts are typically made for fixed periods but may have extension options as explained in the summary of the accounting policies. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

Short term lease includes leases that has a lease term of 12 months or less without any purchase option.

13 Inventories

	2019	2018
Raw materials	65,213,423	70,279,531
Finished products	13,422,853	18,798,365
Spare parts and supplies not held for sale	16,597,340	16,617,301
Goods-in-transit	2,577,823	598,375
Other	1,005,561	892,965
	98,817,000	107,186,537
Less: provision for inventory obsolescence	(12,866,600)	(14,305,963)
	85,950,400	92,880,574

Movement in provision for inventory obsolescence is as follows:

	2019	2018
1 January	14,305,963	14,867,839
Additions	676,811	2,201,576
Write-offs	(2,116,174)	(2,763,452)
31 December	12,866,600	14,305,963

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019****(All amounts in Saudi Riyals unless otherwise stated)****14 Trade and other receivables**

	Note	2019	2018
Trade receivables - Third parties		147,731,601	150,281,548
- Related parties	22(c)	4,720,789	4,384,559
		152,452,390	154,666,107
Less: allowance for expected credit losses		(12,575,871)	(16,629,574)
Net trade receivables		139,876,519	138,036,533
Advances to suppliers		5,594,100	7,661,738
Prepaid expenses		4,210,717	3,705,202
Due from employees		1,535,472	3,854,906
Advance income tax	21	1,754,944	-
Others		11,968,545	7,067,417
		164,940,297	160,325,796

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

Management considers trade receivables as default when they are past due over 1 year. Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The expected loss rates are based on the payment profiles of sales over a period of 60 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the inflation rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Age analysis of gross carrying amount of trade receivables is as follows:

	2019	2018
Not due	100,644,598	106,438,481
0-90 days past due	24,804,077	36,206,753
91-180 days past due	10,952,710	4,489,883
181-270 days past due	4,968,143	2,380,440
271-365 days past due	5,851,674	357,645
Over 365 days past due	5,231,188	4,792,905
	152,452,390	154,666,107

Movement in the expected credit loss (ECL) allowances for trade receivables is as follows:

	2019	2018
As at 1 January	16,629,574	13,538,615
Net impact ECL allowance recognised in profit or loss during the year	(3,007,067)	3,722,757
Receivables written-off during the year as uncollectible	(1,046,636)	(631,798)
As at 31 December	12,575,871	16,629,574

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019****(All amounts in Saudi Riyals unless otherwise stated)**

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 365 days past due. Where receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at reporting date is the carrying amount of each receivable.

The Group does not hold any collateral as security.

15 Cash and cash equivalents

	2019	2018
Cash at bank	79,568,958	106,719,931
Cash in hand	181,000	175,375
	<u>79,749,958</u>	<u>106,895,306</u>

16 Borrowings

During 2018, BCI entered into an agreement with a commercial bank for credit facilities amounting to Saudi Riyals 262 million for partially financing its project for chlorine-based derivatives under construction in Jubail. Borrowings at 31 December 2019 represents the amount drawn by the Group from such facility. The loan is denominated in Saudi Riyals and bears financial charges based on prevailing market rates. There are no financial covenants applicable to the Company under such agreement with the bank.

The Company is expected to utilize the remaining amount of facility during 2020. In accordance with the terms of the agreement, such borrowings will be repayable in 16 equal quarterly installments of Saudi Riyals 16.4 million each commencing April 2021. Accordingly, the borrowings as at 31 December 2019 have been classified under non-current liabilities.

17 Share capital

The share capital of the Company as of 31 December 2019 and 2018 comprised 27,500,000 ordinary shares stated at Saudi Riyals 10 per share.

18 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, the Company is required to transfer 10% of the profit for the year to a statutory reserve until such reserve equals 30% of its share capital. The statutory reserve in the accompanying consolidated financial statements is the statutory reserve of the Company. This reserve is currently not available for distribution to the shareholders of the Company.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019****(All amounts in Saudi Riyals unless otherwise stated)****19 Employee benefit obligations****19.1 General description of the plan**

The Group operates a defined benefit plan in line with the Labour Laws' requirements in the Kingdom of Saudi Arabia. The end of service benefit payments under the plan are based on the employees' final salaries and allowances and their cumulative years of service at the date of their termination of employment, as defined by the conditions stated in the Labour Laws of the Kingdom of Saudi Arabia. Employees' end of service benefit plan is an unfunded plan and the benefit payment obligations are met when they fall due upon termination of or resignation from employment. The latest valuation of employee benefit obligations under the projected unit credit method was carried out by an independent actuary as of 31 December 2019.

19.2 Movement in net liability recognized in the statement of financial position

	2019	2018
1 January	29,376,697	24,008,227
Current service cost	2,484,320	2,162,037
Interest expense	1,240,575	736,595
Remeasurements	(1,585,816)	3,848,798
Benefits paid	(2,790,815)	(1,378,960)
31 December	28,724,961	29,376,697

19.3 Amounts recognized in consolidated statement of profit or loss and other comprehensive income

	2019	2018
Current service cost	2,484,320	2,162,037
Interest expense	1,240,575	736,595
Total amount recognised in profit or loss	3,724,895	2,898,632
<u>Remeasurements</u>		
Gain from change in demographic assumptions	-	(2,429,011)
Gain from change in financial assumptions	(137,395)	(1,665)
Experience (gain) losses	(1,448,421)	6,279,474
Total amount recognised in other comprehensive income	(1,585,816)	3,848,798

19.4 Key actuarial assumptions

	2019	2018
Discount rate	2.90%	4.35%
Salary growth rate	2.90%	4.35%
Retirement age	60 years	60 years

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019****(All amounts in Saudi Riyals unless otherwise stated)****19.5 Sensitivity analysis for actuarial assumptions**

	Change in assumption		Impact on employee benefit obligations	
	Increase in assumption	Decrease in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	0.5%	(1,113,103)	1,198,256
Salary growth rate	0.5%	0.5%	1,241,692	(1,164,203)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of defined benefit obligation calculated with projected unit credit method at the end of the reporting period) has been applied when calculating the employee termination.

19.6 Expected maturity analysis

The weighted average duration of the defined benefit obligation is 7.58 years (2018: 7.92 years). The expected maturity analysis of employee benefit obligations is as follows:

	Less than a year	1 - 2 years	2 - 5 years	5 - 10 years	Total
31 December 2019	1,287,096	9,597,799	3,797,377	14,671,267	29,353,539
31 December 2018	4,218,197	6,531,412	4,125,964	15,640,219	30,515,792

20 Trade and other payables

	Note	2019	2018
Trade payables		42,960,515	34,584,449
Related parties	22(d)	7,153,484	5,179,696
Accrued expenses		26,951,616	24,418,814
Advances from customers		730,621	909,290
Others		4,401,976	6,216,447
		82,198,212	71,308,696

21 Zakat and income tax matters**21.1 Components of zakat base**

The Company and its subsidiaries are subject to zakat and income tax. The Group files zakat and income tax declarations on an unconsolidated basis. The significant components of the zakat base of each company under zakat and income tax regulations principally comprise shareholders' equity, provisions at beginning of the year and adjusted net profit, less deduction for the net book value of property, plant and equipment and certain other items.

In accordance with the regulations of the GAZT, zakat is payable at 2.578% on all components of zakat base except for adjusted net profit for the year which is subject to zakat at the rate of 2.5%.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

21.2 Provision for zakat and income taxes

	Zakat	Income tax	Total
1 January 2019	5,613,713	549,977	6,163,690
Provisions			
- For current year	4,692,024	4,411,389	9,103,413
- Adjustments related to prior years	549,466	-	549,466
	5,241,490	4,411,389	9,652,879
Payments	(6,163,179)	(4,944,113)	(11,107,292)
	4,692,024	17,253	4,709,277
Advance income tax	-	1,754,944	1,754,944
31 December 2019	4,692,024	1,772,197	6,464,221
1 January 2018	8,818,745	4,287,957	13,106,702
Provisions			
- For current year	5,613,714	5,858,849	11,472,563
- Adjustments related to prior years	1,243,340	(355,175)	888,165
	6,857,054	5,503,674	12,360,728
Payments	(10,062,086)	(9,241,654)	(19,303,740)
31 December 2018	5,613,713	549,977	6,163,690

At 31 December 2019, the portion of advance income tax paid by one of the subsidiaries in excess of the income tax liability amounting to Saudi Riyals 1.7 million has been classified under "Trade and other receivables". Also see Note 14.

21.3 Numerical reconciliation of income tax expense to prima facie tax payable

	2019	2018
Profit before zakat and income taxes	69,038,551	82,879,649
Tax at Kingdom of Saudi Arabia tax rate of 20% (2018: 20%)	13,807,710	16,575,936
Less: Tax effect of amount subject to zakat	(8,014,903)	(9,933,526)
Add: Adjustments related to prior years	-	(355,175)
Less: Others	(1,381,418)	(783,561)
Income tax expense	4,411,389	5,503,674

21.4 Deferred tax

Deferred income tax assets, net arising out of temporary differences such as allowance for expected credit losses, slow-moving inventories, employee termination benefits and depreciation amounted to Saudi Riyals 0.72 million (2018: Saudi Riyals 0.65 million). Such amounts were not considered significant and, accordingly, were not recorded at 31 December 2019 and 2018.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

21.5 Status of final assessments

The GAZT has finalized the zakat assessments for the Company for the years through 2002 which have been agreed by the Company.

During 2018, the Company has paid an amount of Saudi Riyals 1.5 million for final settlement for additional assessments for the years from 2005 to 2010. However, the GAZT is yet to issue final zakat certificates for such years.

During the year ended 31 December 2019, the GAZT has issued revised additional assessment for the years 2003 and 2004, partially accepting BCI's contentions and accordingly, reduced the additional zakat liability from Saudi Riyals 0.8 million to Saudi Riyals 0.4 million. BCI has paid such amount of Saudi Riyals 0.4 million for final settlement of zakat liability for the years 2003 and 2004. However, the GAZT is yet to issue final zakat certificates for such years.

The GAZT also issued assessment for the Company for the years 2011 to 2015 with an additional zakat liability of Saudi Riyals 12.9 million. BCI filed an appeal with the GAZT requesting them to issue revised assessment based on their contentions in such appeals and correction of material errors. During the year ended 31 December 2019, the GAZT has issued revised additional assessment for the years 2011 and 2015, partially accepting BCI's contentions and accordingly, reduced the additional zakat liability from Saudi Riyals 12.9 million to Saudi Riyals 3.2 million. The Group has also requested the GAZT to transfer the case to General Secretariat of Tax Committees in respect of the matters not accepted by the GAZT. The Group management believes that no additional zakat liability will arise upon finalisation of the appeal.

The GAZT has issued zakat and income tax assessments related to the subsidiaries for certain years which have been agreed by the subsidiaries. Zakat and income tax assessments for certain years are currently under review by the GAZT. All subsidiaries have received the respective zakat and income tax certificates for the years through 2018.

22 Related party transactions and balances

Related parties comprise the shareholders, directors, associated companies and key management personnel. Related parties also include business entities in which certain directors or senior management have an interest ("other related parties").

(a) *Following are the significant transactions with the associated entities entered into by the Group:*

Nature of transactions	Relationship	For the year ended 31 December	
		2019	2018
Sales of goods to related parties	Associated companies	23,334,105	33,164,513
Purchases from other related parties	Associated companies	41,095,507	68,032,489
Royalty charged by a related party	Associated companies	7,945,790	6,842,744
Payments for engineering and consulting services	Other related parties	4,906,223	2,269,313

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

(b) Key management personnel compensation:

	For the year ended 31 December	
	2019	2018
Salaries and other short-term employee benefits	6,523,876	5,969,724
Employee benefit obligations	448,197	477,802
	6,972,073	6,447,526

Board of directors' fee for the year ended 31 December 2019 was Saudi Riyals 1.8 million (2018: Saudi Riyals 1.6 million).

(c) Amounts due from related parties represent the following:

	2019	2018
Henkel Adhesives Limited and its affiliates	4,720,789	4,384,559

(d) Amounts due to related parties represent the following:

	2019	2018
Henkel Adhesives Limited and its affiliates	4,978,454	4,372,976
Huntsman (Saudi Investments) B.V. Netherlands	2,175,030	806,720
	7,153,484	5,179,696

These outstanding balances are unsecured and are settled in the ordinary course of business and bear no financial charges.

23 Financial risk management**23.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks including the effects of changes in market risk (including currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the management under policies approved by the Board of Directors.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity in general. The World Health Organization has also declared this outbreak as a pandemic. The Group considers this outbreak to be a non-adjusting post balance sheet event. As the situation is fluid and rapidly evolving, management does not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Group's results.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks – currency / foreign currency risk, cash flow and fair value interest risk and price risk.

(i) Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals, United States dollars (USD), United Arab Emirates dirhams (AED) and Euros (EUR). Since Saudi Riyal is pegged to USD and AED, management of the Group believes that the currency risk for the financial instruments related to USD and AED is not significant.

The Company's exposure to foreign currency risk in respect of EUR at the end of the reporting period, expressed in SAR, was as follows:

	2019	2018
Trade and other receivables	4,977,914	9,757,505
Trade and other payables	4,418,098	4,708,006

At 31 December 2019 and 2018, if the EUR to Saudi Riyal exchange rate increased/decreased by 10%, profit for the year would have been higher/ lower by Saudi Riyals 0.1 and 0.5 million respectively.

(ii) Fair value and cash flow interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. As disclosed in Note 16, the Group has interest bearing bank borrowings of Saudi Riyals 15.0 million as at 31 December 2019.

The Group's management monitors the fluctuations in interest rates on regular basis and believes that the interest rate risk is not material.

(iii) Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group's financial assets and liabilities are not exposed to price risk.

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019**

(All amounts in Saudi Riyals unless otherwise stated)

b) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from cash and cash equivalents as well as credit exposures to customers, including outstanding amounts from related parties and committed transactions.

With respect to exposures with banks, management considers the credit risk exposure to be minimal as the Group deals with reputed local commercial banks only. Management does not expect any losses from non-performance by these counterparties.

The Group has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables. Details of how credit risk relating to trade receivables is managed is disclosed in Note 14.

At 31 December 2019, 31% of accounts receivable were due from three customers (2018: 31% from five customers). Management believes that this concentration of credit risk is mitigated as the customers have established track record of regular and timely payments.

The Group categorizes its trade receivables as due from corporates and government related entities.

Major classification of trade receivable as at 31 December was as follows:

	2019		2018	
	Amount	%	Amount	%
Corporates	129,870,779	85.2	135,801,360	87.8
Government related entities	22,581,611	14.8	18,864,747	12.2
	152,452,390	100	154,666,107	100

The credit quality of financial assets that are neither past due nor impaired are assessed by reference to historical information about counterparty default rates.

c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group considers the maturity of both its financial investments and financial assets (e.g. trade receivables, other financial assets) and projected cash flows from operations including access to borrowing facilities. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disaster.

The cash flows, funding requirements and liquidity of Group companies are monitored on a centralised basis, under the control of Group Treasury. The objective of this centralised system is to optimise the efficiency and effectiveness of the management of the Group's capital resources.

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(All amounts in Saudi Riyals unless otherwise stated)

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2019 and 2018 based on contractual undiscounted payments:

Financial liabilities	Less than 6 months	6 to 12 months	1 - 3 years	3 - 5 years	Total
<u>As at 31 December 2019</u>					
Trade and other payables	80,179,467	-	-	-	80,179,467
Lease liabilities	399,943	535,072	1,870,030	603,336	3,408,381
Borrowings	-	-	15,000,000	-	15,000,000
	<u>80,579,410</u>	<u>535,072</u>	<u>16,870,030</u>	<u>603,336</u>	<u>98,587,848</u>

As at 31 December 2018

Trade and other payables	70,399,406	-	-	-	70,399,406
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23.2 Capital risk management

The Group's objective when managing capital is to safeguard Group's ability to continue as a going concern in order to provide returns for the shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Borrowings comprise long-term borrowings from a commercial bank. The management analyzes the gearing ratio as follows:

	2019	2018
Total equity	620,810,825	585,739,337
Borrowings	15,000,000	-
Total	<u>635,810,825</u>	<u>585,739,337</u>
Gearing ratio (borrowings as a percentage of total)	2.36%	0%

The management and Board of directors do not consider lease liabilities for the purpose of calculating its gearing ratio.

24 Categories of financial assets and financial liabilities

As at 31 December 2019 and 2018, all financial assets and financial liabilities were carried at amortized cost.

25 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year. As the Company does not have any dilutive potential shares, the diluted earnings per share is the same as the basic earnings per share.

	<u>For the year ended 31 December</u>	
	2019	2018
Profit attributable to the shareholders of Basic Chemical Industries Company	41,221,284	49,667,629
Weighted average number of ordinary shares for basic and diluted earnings per share	27,500,000	27,500,000
Basic and diluted earnings per share	1.50	1.81

BASIC CHEMICAL INDUSTRIES COMPANY**(A Saudi Joint Stock Company)****Notes to the consolidated financial statements for the year ended 31 December 2019****(All amounts in Saudi Riyals unless otherwise stated)****26 Dividends**

Subsequent to the year ended 31 December 2019, the shareholders of the Company in their extraordinary general assembly meeting held on 9 March 2020 have approved dividends of Saudi Riyals 1.0 per share, amounting to Saudi Riyals 27.5 million for the nine-month period ended 30 September 2019 (2018: Saudi Riyals 27.5 million for the year ended 31 December 2018).

27 Contingencies and commitments

- (i) The Group was contingently liable at 31 December 2019 for bank guarantees issued in the normal course of business amounting to Saudi Riyals 8.4 million (2018: Saudi Riyals 9.1 million)
 - (ii) The capital expenditure contracted by the Group but not yet incurred till 31 December 2019 was approximately Saudi Riyals 390.0 million (2018: Saudi Riyals 36.2 million). Also see Note 11.
 - (iii) See Note 21 for zakat contingencies.
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